CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

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25TH DISTRICT AGRICULTURAL ASSOCIATION
NAPA TOWN AND COUNTY FAIR
NAPA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-024
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

25TH DISTRICT AGRICULTURAL ASSOCIATION
NAPA TOWN AND COUNTY FAIR
NAPA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
Alicia Lauron, CPA	Audit Manager
Stefanie Leckey	Auditor

AUDIT REPORT NUMBER

#09-024

25TH DISTRICT AGRICULTURAL ASSOCIATION
NAPA TOWN AND COUNTY FAIR
NAPA, CALIFORNIA

TABLE OF CONTENTS

Mr. Al Wagner, President
Board of Directors
25th DAA, Napa Town & Country Fair
575 Third Street
Napa, California 94559

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 25th District Agricultural Association (DAA), Napa Town and County Fair, Napa, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 25th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 25th DAA, Napa Town and County Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 25th DAA, Napa Town and County Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-024, on the 25th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 25th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

Ron Shackelford

Ron Shackelford, CPA
Chief, Audit Office

October 9, 2009

25TH DISTRICT AGRICULTURAL ASSOCIATION
NAPA TOWN & COUNTRY FAIR
NAPA, CALIFORNIA

STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007

	Account Number	2008	2007
ASSETS			
Cash & Cash Equivalents	111 - 117	$ 326,458	$ 258,708
Accounts Receivable, Net	131,133	15,492	143,352
Deferred Charges	143	1,736	-
Land	191	231,900	231,900
Buildings and Improvements, Net	192	779,200	865,892
Equipment, Net	193	6,352	11,189
TOTAL ASSETS		**1,361,138**	**1,511,041**
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable & Other Liabilities	211 - 226	54,269	36,658
Deferred Income	228	57,950	31,170
Guaranteed Deposits	241	1,000	1,000
Compensated Absences Liability	245	65,311	57,766
Total Liabilities		**178,530**	**126,594**
Net Resources			
Reserve for Junior Livestock Auction	251	51,585	81,587
Net Resources - Operations	291	113,571	193,879
Net Resources - Capital Assets	291.1	1,017,452	1,108,981
Total Net Resources Available		**1,182,608**	**1,384,447**
TOTAL LIABILITIES AND NET RESOURCES		**$ 1,361,138**	**$ 1,511,041**

See accompanying independent auditor's report and notes to the financial statements.

25TH DISTRICT AGRICULTURAL ASSOCIATION
NAPA TOWN & COUNTRY FAIR
NAPA, CALIFORNIA

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2008 and 2007

	Account Number	2008	2007
REVENUE			
State Apportionments	312	$ 124,000	$ 124,000
F&E Project Funds/Capital Project Reimbursement	318/340	9,220	520,862
Admissions	410	311,317	311,814
Commercial Space	415	79,806	82,305
Carnival	421	111,995	116,345
Food Concessions	422-423	104,671	102,367
Exhibits	430	12,247	21,365
Attractions - Fairtime	460	52,434	35,277
Miscellaneous Fair	470	69,337	71,555
JLA - Revenue	476	57,066	70,388
Non-Fair Revenue	480	518,941	535,901
Prior Year Adjustment	490	18,473	(6,209)
Other Revenue	495	6,659	11,452
Total Revenue		**1,476,166**	**1,997,422**
EXPENSES			
Administration	500	328,612	286,792
Bad Debt Expense	514	23,057	-
Maintenance and Operations	520	666,828	633,275
Publicity	540	48,518	52,626
Attendance	560	117,611	108,919
Miscellaneous Fair	570	15,058	12,635
JLA - Expense	576	87,067	87,911
Premiums	580	27,156	23,509
Exhibits	630	47,979	45,746
Attractions - Fairtime	660	212,731	172,918
Non-Capitalized	723	11,004	-
Prior Year Adjustments	800	58,186	(28,385)
Cash Over/Short from Ticket Sales	850	2	(18)
Depreciation Expense	900	34,196	37,744
Other Operating	945	-	6,610
Total Expenses		**1,678,005**	**1,440,282**
RESOURCES			
Net Change - Income / (Loss)		(201,839)	557,140
Resources Available, January 1		1,384,447	827,307
Resources Available, December 31		**$ 1,182,608**	**$ 1,384,447**

25TH DISTRICT AGRICULTURAL ASSOCIATION
NAPA TOWN & COUNTRY FAIR
NAPA, CALIFORNIA

STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	$ (201,839)	$ 557,140
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	127,860	(54,097)
(Increase) Decrease in Deferred Charges	(1,736)	3,043
Increase (Decrease) in Deferred Income	26,780	(12,236)
Increase (Decrease) in Accounts Payable & Other Liabilities	17,611	36,367
Increase (Decrease) in Compensated Absence Liability	7,545	(5,871)
Increase (Decrease) in Guarantee Deposits	-	-
Total Adjustments	178,060	(32,794)
Net Cash Provided (Used) by Operating Activities	**(23,779)**	**524,346**
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction In Progress	-	33,446
(Increase) Decrease in Buildings & Improvements	86,692	(561,393)
(Increase) Decrease in Equipmen	4,837	4,837
Net Cash Provided (Used) by Investing Activities	**91,529**	**(523,110)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	-	-
Net Cash Provided (Used) by Financing Activities	-	-
NET INCREASE (DECREASE) IN CASH	**67,750**	**1,236**
Cash at Beginning of Year	258,708	257,472
CASH AT END OF YEAR	**$ 326,458**	**$ 258,708**

See accompanying independent auditor's report and notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The 25th District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Napa Town and County Fair each year in Napa, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do no conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to $40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than $5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 **NEW ACCOUNTING STANDARDS**

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues,* ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* ("GASB Statement No. 49"). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an "expected cash flows" measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures,* (GASB Statement No. 50"). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits ("OPEB") and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information ("RSI") by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* ("GASB Statement No. 25"), and No. 27, *Accounting for Pensions by State and Local Governmental Employers,* ("GASB Statement No. 27") to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* ("GASB Statement No. 43") and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* ("GASB Statement No. 45"). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* ("GASB Statement No. 51"). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 **CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the DAA as of December 31:

	2008	2007
Petty Cash & Change Fund	$ 28,580	$ 12,873
Cash in Bank - Operating	37,315	170,459
Cash in Bank - Auction	56,038	71,506
Cash in Bank - Premium	145	(350)
Cash in Bank - Investment & Savings	204,380	4,220
Total Cash and Cash Equivalents	$326,458	$258,708

NOTE 4 **ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	2008	2007
Accounts Receivable	$ 35,061	$ 137,125
Accounts Receivable - UI	3,488	6,227
Allowance for Doubtful Accounts	(23,057)	0
Accounts Receivable - Net	$ 15,492	$ 143,352

NOTE 5 **PROPERTY AND EQUIPMENT**

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	2008	2007
Building & Improvements	$ 3,829,315	$ 3,887,798
Less: Accumulated Depreciation	(3,050,115)	(3,021,906)
Building & Improvements - Net	$ 779,200	$ 865,892
Equipment	$ 938,790	$ 938,790
Less: Accumulated Depreciation	(932,438)	(927,601)
Equipment - Net	$ 6,352	$ 11,189

NOTE 6 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

25TH DISTRICT AGRICULTURAL ASSOCIATION
NAPA TOWN AND COUNTY FAIR
NAPA, CALIFORNIA

REPORT DISTRIBUTION

Number	Recipient
1	President, 25th DAA Board of Directors
1	Chief Executive Officer, 25th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

25TH DISTRICT AGRICULTURAL ASSOCIATION
NAPA TOWN AND COUNTY FAIR
NAPA, CALIFORNIA

MANAGEMENT REPORT #09-024

YEAR ENDED DECEMBER 31, 2008

25TH DISTRICT AGRICULTURAL ASSOCIATION
NAPA TOWN AND COUNTY FAIR
NAPA, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
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MANAGEMENT REPORT NUMBER
#09-024

TABLE OF CONTENTS

Mr. Al Wagner, President
Board of Directors
25th DAA, Napa Town & Country Fair
575 Third Street
Napa, California 94559

In planning and performing our audit of the financial statements of the 25th District Agricultural Association (DAA), Napa Town and County Fair, Napa, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Napa Town and County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 25th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 25th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 25th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 25th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 25th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 25th DAA and compliance with state laws and regulations, we identified four areas with reportable conditions that are considered weaknesses in the Fair's operations: board member tickets/passes, purchasing procedures, allowance for doubtful accounts, and personnel. We have provided seven recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 25th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is <u>not</u> required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

BOARD MEMBER TICKETS/PASSES

The Fair has a formal policy of issuing 25 courtesy passes (gate admission tickets) and parking tickets, and ten gala admission tickets to each Board member, and a total of 92 gate admission tickets to past members of the board of directors. For 2008, the individual ticket cost for gate admission, parking and gala admission is $8, $5 and $25, respectively, resulting in a maximum value of freebies totaling $455 per current board member and $736 for all the past board members.

Although the amount is not deemed excessive, the Fair should be cautioned that in January 2009 the Fair Political Practices Commission (FPPC) adopted California Code of Regulations (CCR), Section 18944.1, which requires agency distribution of free tickets/passes, not treated as income to its official, must be made pursuant to a written policy duly adopted by the governing body of the agency that state the public purposes to be accomplished by the agency policy. Furthermore, the distribution of free tickets/passes shall be posted on FPPC California Form 802 in a prominent fashion on the agency's website within 30 days after the distribution. If the agency does not maintain a website, the form shall be maintained as a public record subject to inspection and copying, and be forwarded to FPPC for posting on its website.

Recommendation

1. *The Fair should establish a written policy for the distribution of free tickets or passes in compliance with the FPPC regulations. In addition, the Fair should maintain a completed FPPC Form 802 on its website or as a public record in accordance with FPPC.*

PURCHASING PROCEDURES

The Fair's compliance with State purchasing procedures was reviewed and the following items were noted:

a. The Fair did not comply with the Division of Fairs & Expositions (F&E) Accounting Procedures Manual (APM) when making opportunity purchases. The Fair did not maintain a log or other lists specifying these opportunity purchases. Section 2.12 of the F&E APM states that the individual authorized to issue and/or approve purchases must set up and maintain logs and files with lists of purchases in numerical order, items purchased, date of purchase and name of vendor. This was a prior year audit finding.

b. The Fair did not complete a purchase order Standard Form 65, Contract/Delegation Purchase Order, for purchases over $100. According to the APM, a purchase order should be completed for all purchases over $100 and approved by the appropriate level of management. This was a prior year audit finding.

Recommendations

2. *The Fair should follow the proper guidelines in the F&E APM and maintain a detailed purchasing log when making an opportunity purchase. Additionally, the Fair should attach supporting documentation and bids when required.*

3. *The Fair should comply with the purchase order requirements and complete a Purchase Order (Standard Form 65) for all purchases over $100 or risk losing their delegated purchasing authority from the Department of General Services.*

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Fair did not establish an allowance for doubtful accounts for all outstanding accounts receivable balances that are uncollectible. An allowance for doubtful accounts should be recognized in the accounting records when an account is determined as uncollectible. A review of the accounts receivable balances in the Fair's general ledger indicated $23,057 likely to be uncollectible. Account #131.1, Allowance for Doubtful Accounts, was not increased accordingly for this amount. Therefore, the CDFA will make an adjustment to the financial statements at December 31, 2008 to accurately report the related amount for the Fair's allowance for doubtful accounts. This adjustment presents the Fair's assets more accurately.

Recommendation

4. *The Fair should ensure the accounts receivable balance at year-end only represents collectible accounts receivable balances. An allowance for doubtful accounts adjustment should be recorded for all outstanding receivables that are deemed uncollectible*

PERSONNEL

Review of employee files, payroll calculations, vacation/sick leave, and overtime records, as verified to time cards and Absence and Additional Time Worked Reports, Standard Form 634, revealed the following issues:

a. The Fair did not enroll one temporary employee who exceeded the 1,000 hours limitation within a fiscal year into the Alternate Retirement Program (ARP). Our office noted no ARP deduction taken on the subsequent pay period after the employee exceeded the 1000 hours. Per Government Code Section 20305, if an individual who is employed on an other than per diem basis works 1,000 hours within the fiscal year, ARP membership shall be effective not later than the first day of the first pay period of the month following the month in which 1,000 hours of service is completed. This was a prior year audit finding.

b. The Fair allowed two temporary employees to work in excess of the 119-day limitation within a calendar year. Although the Fair monitored the number of days worked by each temporary employee, these employees worked 158 days and 169 days in 2008. According to the F&E APM Section 3 §4.34, temporary employees may not work more than 119 days in a calendar year. This was a prior year audit finding

c. The Fair allowed one employee to maintain leave balance in excess of the 640 hours limitation for annual leave. The employee maintained 746 hours of annual leave credits at year end. According to the employee's related bargaining unit, the maximum vacation/annual leave balance that may be accumulated is 640 hours. This was a prior year audit finding.

Recommendations

5. *The Fair should comply with Government Code Section 20305 and enroll individuals who have worked at least 1,000 hours into ARP, effective the first day of the pay period of the following month.*
6. *The Fair should continue to monitor the number of days worked by temporary employees to ensure that the 119-day limitation is not exceeded. In addition, the Fair should comply with the APM by ensuring temporary employees do not work in excess of the 119-day limitation.*
7. *The Fair should ensure permanent employees do not accrue leave hours in excess of the required limits. The Fair should encourage the employees with excess balances to take time off, thereby reducing their accumulated leave balances.*

NON-REPORTABLE CONDITIONS

CASH CONTROLS

The Fair's bank reconciliations, cash receipts and disbursements processing were analyzed for the audit period and the following internal control weaknesses were identified:

a. The Fair incorrectly posted the 2007 automated teller machine (ATM) revenues of $5,437 to the RV Change Fund account. Although the Fair made a subsequent journal entry in an attempt to correct the error in 2008, the journal entry incorrectly posted and debited $5,487 to the RV Change Fund account which doubled the accounting error. As a result, the RV Change Fund account was overstated by $10,924 at year end 2008.

b. The Fair's monthly bank reconciliations of their ATMs do not agree with the balance recorded in the general ledger. The monthly reconciliation serves two purposes: (i) to ensure amounts on hand in the ATM machine, and (ii) to ensure any discrepancies can be detected in a timely manner.

c. The Fair did not always deposit cash receipts in a timely manner. The APM requires the Fair to make daily deposits whenever cash exceeds $500, or when the aggregate cash and check balance exceeds $5,000. Furthermore, no collection may remain undeposited for more than 15 working days. Our office noted seven instances that the Fair allowed some deposits exceeding the cash limits to remain undeposited for up to 9 days.

d. An audit of the Fair's cancelled checks for the 2008 calendar year revealed that the Fair does not comply with the Board of Directors established policy that requires the Fair to obtain two authorized signatures for checks in the amount of $5,000 and over. Our office noted two checks written in excess of $5,000 that only bear the CEO's signature.

Recommendations

The Fair should improve its controls over cash management by ensuring that all ATM deposits and disbursements agree with entries in the general ledger and that amounts reported in the financial statements are accurate.

The Fair should ensure that the bank reconciliations agree to the balances reflected in the general ledger. If there's a difference between the bank reconciliations and the general ledger, the Fair needs to investigate the discrepancy.

The Fair should ensure they deposit cash receipts within the timeframes specified in the F&E APM. The timely deposit of cash receipts helps minimize the risk of loss or other misuses of the cash or cash equivalents collected

The Fair should ensure that it adheres to its check signing policy as established by its Board of Directors. All checks in excess of $5,000 should contain two authorized signatures.

INDEPENDENT CONTRACTORS

A review of the Standard 210 Agreements revealed that the Fair did not complete the Employment Development Department (EDD) DE 542 form for independent contractors as required by State Senate Bill 542. The Fair is required to report to EDD within 20 days of paying or contracting for $600 or more with an independent contractor in any calendar year by submitting Form DE 542. According to EDD, any business or government entity that is required to file a federal Form 1099-MISC for services received from an independent contractor is required to report specific independent contractor information to EDD. This information is used by EDD to locate parents who are delinquent in their child support obligations.

In addition, the Fair did not withhold 7% of the amount paid to one nonresident individual as required by the Franchise Tax Board (FTB). The FTB requires withholding of income or franchise tax on payments of California source income made to nonresidents of California unless the nonresident individuals present Form 590, Withholding Exemption Certificate, to the withholding agent. Failure to withhold may result in the withholding agent being personally liable for the amount of tax that should have been withheld and for interest and penalties.

Furthermore, the Fair did not always prepare or issue an Internal Revenue Service (IRS) Miscellaneous Income Form 1099 to five independent contractors receiving $600 or more for services performed. The IRS requires this form be prepared any time contractors earn $600 or more in a calendar year.

Recommendations

The Fair should comply with State Senate Bill 542, which requires entities to report specified information to EDD on independent contractors within 20 days of either making payments or entering into a contract totaling $600 or more in any calendar year, whichever is earlier, to avoid penalty for failure to comply within the required timeframe.

The Fair should ensure that 7% is withheld from payments to nonresident individuals without Form 590 on file per the FTB requirements.

The Fair should ensure that it issues a Miscellaneous Income Form 1099 for each independent contractor earning $600 or more in a calendar year.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE

Napa Valley Expo

March 23, 2010

Ron Shackelford, Audit Chief
Department of Food and Agriculture
2014 Capital Ave, Suite 107
Sacramento, California 95811

Re: 25th DAA - 2008 Audit

Dear Mr. Shackelford:

We have reviewed your independent auditor's report and financial statements and the related management report for the year ending December 31, 2008. We have reviewed the four areas identified by the auditor as reportable conditions and our response to each one in order is as follows:

Board Member Ticket/Passes:

The Board will take a look at the new regulations as of January 2009 and will take the steps to update our written policy as to be in compliance. We should also note that the past board members are no longer under the FPPC regulations and in our opinion should not be a current finding.

Purchasing Procedures:

The fair has made improvements in the purchasing procedures and in 2008 have started the use of in-house purchase orders. We shared this with the auditor during her visit and she thought that we were headed in the right direction.

Allowance for Doubtful Accounts:

We are taking steps to clear up this matter and should be corrected by June 2010.

575 Third Street • Napa, California 94559
(707) 253-4900 Fax (707) 253-4943
E-Mail: nvexpo@aol.com

Personnel:

With such a small staff we strive to comply with the 119 day & 1,000 hour policies.

Permanent employee leave balances - the Fair has budgeted for a decrease in this staff members accrued leave through more planned vacations and time off taken in 2008 and 2009. Due to the small staffing and the current work furlough program we were unable to achieve our goal, however we are still working towards getting this resolved.

The staff at the 25th DAA looks at our audits as a time to learn new and better ways to do our jobs more efficiently. We look forward to working with the audit team when they arrive and learning how other Fairs do things that might make our jobs easier.

Sincerely,

Joseph R Anderson

Joseph Anderson, CEO
25th District Agricultural Association

Al Wagner, President
25th District Agricultural Association Board

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 25th DAA, Napa Town and Country Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between September 28, 2009 and October 9, 2009. My staff met with management on October 9, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.

Ron Shackelford, CPA
Chief, Audit Office

October 9, 2009

REPORT DISTRIBUTION

Number	Recipient
1	President, 25th DAA Board of Directors
1	Chief Executive Officer, 25th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office